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BEFORE THE ARIZONA CORPORATION COMMISSION

BOB STUMP

Chairman

GARY PIERCE

Commissioner

BRENDA BURNS

Commissioner

BOB BURNS

Commissioner

SUSAN BITTER SMITH

Commissioner

Arizona Corporation Commission

DOCKETED

MAY 22 2014

DOCKETED BY

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IN THE MATTER OF THE APPLICATION)
OF PAYSON WATER CO., INC., AN)
ARIZONA CORPORATION, FOR A)
DETERMINATION OF THE FAIR VALUE)
OF ITS UTILITY PLANT AND PROPERTY)
AND FOR INCREASES IN ITS WATER)
RATES AND CHARGES FOR UTILITY)
SERVICES BASED THEREON.)

DOCKET NO. W-03514A-13-0111

IN THE MATTER OF THE APPLICATION)
OF PAYSON WATER CO., INC., FOR)
AUTHORITY TO ISSUE EVIDENCE OF)
INDEBTEDNESS IN AN AMOUNT NOT)
TO EXCEED \$1,238,000 IN CONNECTION)
WITH INFRASTRUCTURE)
IMPROVEMENTS TO THE UTILITY)
SYSTEM; AND ENCUMBER REAL)
PROPERTY AND PLANT AS SECURITY)
FOR SUCH INDEBTEDNESS.)

DOCKET NO. W-03514A-13-0142

DECISION NO. 74484ORDER

Open Meeting
May 22, 2014
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Payson Water Co., Inc. ("PWC" or "Company") is an Arizona public service corporation that provides water service to approximately 1,114 customers in eight different communities in Gila County, Arizona. The largest community presently served by PWC is Mesa del Caballo ("MDC") with 364 customers. MDC has experienced chronic water shortages during the summer months over the past five years.

Decision No. _____

2. In September 2010, the Commission authorized PWC to assess an Emergency Interim Water Augmentation Surcharge Tariff on MDC customers to recover its costs of hauling water to MDC between May 1st and September 30th of each year. The Commission required PWC to post a performance bond in the form of a cashier's check.

3. On October 25, 2013, the Commission issued Decision No. 74175 in Phase I of the above-captioned proceedings for the rate and financing applications. Phase I was decided on an expedited basis so that PWC might have sufficient time to obtain the necessary financing to construct a new water pipeline connecting its MDC system to the Town of Payson's water system prior to the summer of 2014. In Phase I, the Commission granted the Company interim emergency rate relief related to the costs of constructing the pipeline.

4. PWC obtained a loan of \$275,000 on February 19, 2014, from the Water Infrastructure Finance Authority of Arizona ("WIFA"), and completed construction of the new pipeline in April 2014.

5. On May 6, 2014, PWC sent an e-mail to its MDC customers notifying them that "due to heavy water consumption over the weekend" the Company was "unable to recover from the reduction of [its] water storage volume" and MDC was required to move back to Stage 4 of its Water Curtailment Tariff.

6. The e-mail further indicated that construction of the new pipeline was "substantially complete and operational" but that because the Commission

has not yet approved the new rates (which include the Purchased Water Surcharge for MDC customers), the Company cannot afford to purchase water through the new line. At present, and until new rates take affect, the only ACC-approved method for the Company to augment water into [MDC] and recover the costs, remains hauling water into the system with trucks.

7. On May 12, 2014, the Arizona Department of Environmental Quality ("ADEQ") issued an Approval of Construction, so PWC now has all of the required regulatory approvals it needs to begin delivering water to its MDC customers via the new pipeline.

8. On May 12, 2014, Staff filed an update in this matter to apprise the Commission of the status of MDC's water supplies. In that status update, Staff indicated that it intended to bring this matter before the Commission in an open meeting.

9. PWC agreed to provide appropriate notice to the customers of its MDC system.

1 10. Staff is concerned that the need for supplementing MDC water supplies is
2 imminent, and that the Company's existing tariffs create a perverse incentive for the Company to
3 truck water into MDC instead of delivering it via its operational pipeline.

4 11. Staff believes that trucking water into MDC at this point would not be consistent
5 with the Commission's intent in the Phase I order (i.e., Decision No. 74175) authorizing the
6 financing of the new pipeline. Staff notes that, as of April 1, 2014, MDC customers began paying
7 a \$6.76 per month WIFA loan surcharge to service payments on the \$275,000 WIFA loan.

8 12. Staff concurs with PWC's assessment that the Company's existing tariffs would not
9 allow the Company to recover the cost of any water that it purchases from the Town of Payson and
10 delivers to MDC via its new pipeline. Staff also notes that, while the Company has filed an
11 application to eliminate its Emergency Interim Water Augmentation Surcharge Tariff, the
12 Commission has not yet acted on the Company's application, and the Company has expressly
13 asked the Commission not to act on its application until the Commission has approved a purchased
14 water adjustment mechanism ("PWAM") for its MDC system.

15 13. Presently, the Company arguably only has authority to recover the cost of
16 augmentation water if it is trucked into MDC.

17 14. If PWC's existing water supplies were to become insufficient, the Company would
18 need to obtain supplemental supplies.

19 15. Supplementing the water supply by hauling water via trucks is significantly more
20 expensive than supplementing the water supply by transporting purchased water through the new
21 pipeline. Staff is concerned that MDC customers may be subjected to the expensive costs of water
22 hauling, even though a cheaper alternative is available.

23 16. Staff believes that these circumstances justify emergency rate relief, and Staff
24 recommends that the Commission authorize PWC to implement an emergency interim PWAM for
25 the MDC system until a decision is issued in PWC's pending rate case. The details of the interim
26 PWAM tariff as well as estimated customer bill impacts are set forth in Exhibits A and B,
27 respectively.
28

17. The interim PWAM should apply *only* to the customers of the MDC system.

18. Furthermore, any emergency/interim rate relief will be subject to true-up and/or refund in the pending rate case.

Recommendations.

19. Based on the foregoing and upon Staff's belief that the need to augment MDC's water supplies is imminent, Staff recommends the following:

a) The Commission should approve, on an interim basis, the PWAM that the Company requested and that Staff recommended in PWC's pending rate case, which is attached as Exhibit A.

b) The emergency interim PWAM should apply only to the customers of the MDC system.

c) The Commission should accept either the \$10,000 bond that PWC filed pursuant to the Phase I order or the performance bond that PWC filed when it initiated its Emergency Interim Water Augmentation Surcharge Tariff as appropriate bonds herein.

d) Any emergency/interim rates will be subject to true-up and/or refund in PWC's pending rate case.

e) Simultaneous to the approval of the emergency interim PWAM, the Commission should grant PWC's request to eliminate its Emergency Interim Water Augmentation Surcharge Tariff.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction over Payson Water Co., Inc. and over the subject matter herein pursuant to Article XV of the Arizona Constitution and Title 40 of the Arizona Revised Statutes.

2. Appropriate notice of the proceeding and an appropriate opportunity to be heard have been given in the manner prescribed by law.

3. Emergency rate relief is appropriate when a company is potentially unable to maintain adequate levels of service at appropriate rates pending the outcome of a final rate determination.

1 4. ADEQ's issuance of an Approval of Construction for the new pipeline reflects a
2 sudden and significant change in the means available to Payson Water Co., Inc. to supplement its
3 water supply.

4 5. Without a Commission-authorized PWAM, Payson Water Co., Inc. cannot recover
5 the costs of water purchased from the Town of Payson and transported to MDC through the new
6 pipeline.

7 6. The facts and circumstances demonstrate that Payson Water Co., Inc.'s Mesa del
8 Caballo system faces an urgent situation that justifies emergency/interim rate relief.

9 7. Staff's recommendations herein are reasonable and should be adopted.

10 8. The Commission, having reviewed Staff's Memorandum, finds that it is in the
11 public interest to permit an interim emergency PWAM mechanism as set forth in Exhibit A to this
12 order.

13 9. The Emergency Interim Water Augmentation Surcharge Tariff should be canceled.

14 **ORDER**

15 IT IS THEREFORE ORDERED that Payson Water Co., Inc. may implement an interim
16 emergency PWAM mechanism as set forth in Attachment A to this order.

17 IT IS FURTHER ORDERED that the interim emergency PWAM will terminate upon the
18 effective date that rates approved in Payson Water Co., Inc.'s application for a base rate increase
19 may be charged.

20 IT IS FURTHER ORDERED that Payson Water Co., Inc. may utilize funds collected
21 pursuant to the interim emergency PWAM only toward payment of the costs of water purchased
22 from the Town of Payson and transported to MDC through the new pipeline.

23 IT IS FURTHER ORDERED that rates collected pursuant to the interim emergency
24 PWAM are subject to true-up once rates are approved in Payson Water Co., Inc.'s application for a
25 base rate increase. Amounts collected beyond what are approved in the permanent base rate case
26 are subject to refund.

1 IT IS FURTHER ORDERED that Payson Water Co., Inc. shall mail notice of the approved
2 interim emergency PWAM to is MDC customers, in a form and manner acceptable to Staff, within
3 five days of the Commission's action in this matter.

4 IT IS FURTHER ORDERED that Payson Water Co., Inc.'s \$10,000 bond provided in
5 Phase I and/or its performance bond provided with its Water Augmentation Tariff shall serve as
6 appropriate bonds for the interim emergency PWAM.

7 IT IS FURTHER ORDERED that the interim emergency PWAM approved herein shall
8 apply only to the customers of Payson Water Co., Inc.'s Mesa del Caballo System.

9 IT IS FURTHER ORDERED that Payson Water Co., Inc.'s Emergency Interim Water
10 Augmentation Surcharge Tariff for the Mesa Del Caballo System is hereby canceled.

11 IT IS FURTHER ORDERED that this Order shall become effective immediately.

12 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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14 CHAIRMAN

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14 COMMISSIONER

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16 COMMISSIONER

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16 COMMISSIONER

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16 COMMISSIONER

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18 IN WITNESS WHEREOF, I JODI JERICH, Executive Director
19 of the Arizona Corporation Commission, have hereunto, set my
20 hand and caused the official seal of this Commission to be
21 affixed at the Capitol, in the City of Phoenix, this
22 22nd day of May, 2014.

22
23 JODI JERICH
24 EXECUTIVE DIRECTOR

25 DISSENT: _____

26 DISSENT: _____

1 SERVICE LIST FOR: PAYSON WATER CO., INC.
2 DOCKET NOS. W-03514A-13-0111 and W-03514A-13-0142

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Exhibit A

PURCHASED WATER ADJUSTOR MECHANISM ("PWAM")
TARIFF
FOR MESA DEL CABALLO

**PURCHASED WATER ADJUSTOR MECHANISM ("PWAM")
TARIFF
FOR MESA DEL CABALLO**

I. Purpose and Applicability

The purpose of this tariff is to provide for recovery of the costs of water purchased through an interconnection between the Town of Payson and Payson Water Co., Inc. in order to obtain supplemental water supplies for its Mesa Del Caballo ("MDC") system. This tariff is applicable only to MDC customers. These charges are applicable to all MDC connections and will be assessed based on usage, as more particularly provided below.

II. Definitions

Unless the context otherwise requires, the definitions set forth in R14-2-401 of the Arizona Corporation Commission's ("Commission") rules and regulations governing water utilities shall apply in interpreting this tariff schedule.

"Avoided Production Costs" means the unit cost of production (cost per 1,000 gallons) avoided by PWC because of the use of water purchased from the Town of Payson rather than pumping groundwater from the wells and booster stations in the MDC water system.

"PWC" means Payson Water Co., Inc.

"Purchased Water Cost" means the actual cost billed by the Town of Payson for water purchased through the interconnection between the Town of Payson's water system and the MDC water system.

"Purchased Water" means the actual quantity (in thousands of gallons) of water purchased by PWC from the Town of Payson and transported through the interconnection between the Town of Payson's water system and the MDC water system.

"PWAM Surcharge" means the surcharge calculated in accordance with Section IV below.

"PWAM Surcharge Rate" means the rate per 1,000 gallons that is calculated in accordance with Section III below.

"Town" means the Town of Payson.

"Water Sold" means the actual quantity (in thousands of gallons) of water sold by PWC to MDC customers during the month corresponding to the month in which water was purchased from the Town and transported through the interconnection between the Town's water system and the MDC water system.

III. PWAM Surcharge Rate Calculation

For each month that PWC purchases water from the Town through the interconnection between the Town's water system and the MDC water system, PWC will calculate the PWAM Surcharge Rate per the following formula:

$$[\text{Purchased Water Cost} - (\text{Purchased Water Quantity} \times \text{Avoided Production Costs})] / \text{Water Sold}$$

IV. Terms and Conditions

(A) Assessment and Billing of PWAM Surcharge: For any month in which water is purchased from the Town, after completing its billing for the month and receiving the Town's billing for the month, PWC will make the PWAM surcharge calculation to determine the PWAM Surcharge Rate.

In the following month, PWC will bill the PWAM Surcharge to its MDC customers only. Each individual customer's billing for the PWAM Surcharge will be based on that customer's actual usage for the previous month (the month corresponding to the water purchase from the Town) times the PWAM Surcharge Rate.

The PWAM Surcharge shall be presented as a separate line item on the customer billing.

(B) Notice to Commission: For any month in which PWC intends to bill MDC customers a PWAM Surcharge, PWC shall provide Commission Staff notice of PWC's intent to bill the PWAM Surcharge. At the time it bills the PWAM to MDC Customers, PWC shall provide Commission Staff the following:

1. The Purchased Water Cost.
2. The Purchased Water Quantity.
3. A copy of the bill received for the purchase of water from the Town.
4. A description of the system problem necessitating purchasing of water and a description of the action being taken by PWC to resolve the problem, including the date operations did or are expected to return to normal.
5. The dates for beginning and ending purchasing water.
6. A schedule showing the calculation of the PWAM Surcharge Rate in excel format with formulas intact, including a schedule showing the determination of the Avoided Production Costs.

Exhibit B

Payson Water Company
Purchased Water Adjustment Mechanism ("PWAM") Example
When Less Than 100% of All Water Purchased From Town of Payson

Examples assume that 25% of total water purchased from the Town of Payson

Example 1 - Typical Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 4,500 gallons; 75% (or 3,375) from Payson Water Company and 25% (or 1,125) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage	% of Gallons From Town of Payson	Gallons in 1,000 From Town of Payson	Estimated Town of Payson	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
Assumption	Payson	Col A x Col B	Commodity Rate	Col D - Col E	Col C x Col F	
Block 1	4,000 x 25% =	1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88
Block 2	500 x 25% =	0.125	\$7.48	\$ 0.60	\$ 6.88	\$ 0.86
Total Usage Assumption	4,500	1.125				
						Total Monthly Surcharge \$ 7.74 *
						*Excludes Taxes

Example 2 - High Usage Customer

This example illustrates how the surcharge would be calculated for a customer using 25,000 gallons; 75% (or 18,750) from Payson Water Company and 25% (or 6,250) from the Town of Payson.

[A]	[B]	[C]	[D]	[E]	[F]	[G]
Total Usage	% of Gallons From Town of Payson	Gallons in 1,000 From Town of Payson	Estimated Town of Payson	Avoided Costs ¹	Difference in Rate per 1,000 gal	Surcharge
Assumption	Payson	Col A x Col B	Commodity Rate	Col D - Col E	Col C x Col F	
Block 1	4,000 x 25% =	1,000	\$7.48	\$ 0.60	\$ 6.88	\$ 6.88
Block 2	21,000 x 25% =	5,250	\$7.48	\$ 0.60	\$ 6.88	\$ 36.12
Total Usage Assumption	25,000	6,250				
						Total Monthly Surcharge \$ 43.00 *
						*Excludes Taxes

¹ Avoided Costs are production costs (i.e., chemicals and purchased pumping power) that the Company would not incur when water is purchased for this system rather than pumped from the Company's wells.